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MEMORANDUM FOR:

FROM :

SUBJECT ; Soviet Economy

1. Attached are some thoughts on how one might structure Part III of Mr. Bowie's briefing which is basically three parts:

Part I : Factual Review of 76-77
Part II : Evidence of Soviet Leadership Perceptions
of Problems
Part III: Long-term Implications

2. I'm not trying to sell this as a detailed briefing, but I think we need to cover these bases with Mr. Bowie in his preparations.

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III. Long-term outlook, i.e. up to mid '80s

A. Operative factors

1. Economic

a. Internal

- (1) Energy - the crunch will come as big producers of 70s run down & new sources are hard to come by
- (2) Agriculture - erratic climate will assure roller coaster ride
- (3) Manpower - decline in quantity, quality and mobility of manpower will set in
- (4) Productivity
 - (a) Incentive systems work against innovation & risk taking
 - (b) ?

b. External (as seen from Kremlin)

- (1) Slow growth rate of OECD
- (2) LDC's will find OECD more attractive economic partner

2. Political

a. Internal

- (1) Players/Interest Groups
 - (a) Party
 - (i) Interests of party in maintaining their perquisites
 - (ii) Role of ideology in informing domestic actions of Soviet leaders
 - (b) Military
 - (c) Planning bureaucracy
- (2) Inevitability of a succession struggle and its impact

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b. External (as seen from Kremlin)

- (1) Continued chaos in Africa will be fertile ground for Soviet activities but none with great economic pay-off
- (2) PRC will remain hostile
- (3) Unrest will grow in Eastern Europe as economic strictures tighten up if Soviet oil is cut off
- (4) Yugoslav and Albanian succession will present great temptations for intervention
- (5) Barring Israeli-Arab settlement combination of turmoil and oil will offer tempting targets

B. Sample Scenarios Roughly Covering Range of Possibilities

1. Major shift of economy toward flexibility

- a. Pro - only way to get innovation
- b. Cons - (they rule this out as a real possibility)
 - (1) Chaos would exist at first
 - (2) Powerful interests threatened
 - (3) Ideology won't permit

2. Major shift of economy toward civilian outputs - i.e. embrace disarmament

- a. Pro - free resources that have been tied up in military forces
- b. Cons - (they again rule this out on a scale large enough to impact economic problems; ~~W n.b.~~, This doesn't rule out tinkering such as SALT)
 - (1) Threat from China/NATO
 - (2) Military interests
 - (3) Inability to alter structure of plants

3. Muddle through with relatively minor and temporary shifts of policy, e.g. ups and downs of private agriculture

- a. Pros

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- (1) Requires no dramatic acts of leadership while succession maneuvering going on
 - (2) Others?
- b. Cons
 - (1) Won't work - not clear where the first cracks will appear
 - (2) Others?
- 4. Basically no economic structural changes, but with a major policy shift reverting to ruthless suppression
 - a. Pros
 - (1) Stifle consumer pressures
 - (2) More effective motivation than current policies
 - (3) Others?
 - b. Cons
 - (1) Party members risk being caught up in purges themselves
 - (2) Others?
 - c. Foreign Relations Impact (Is this a pro or a con?)
 - (1) Pro - to tell Carter or his successor and their human righters to pack sand should warm the cockles of the Kremlin
 - (2) Con - outsiders might take restrictive actions that would exacerbate economic problems
- 5. Go to war, especially to acquire those resources or capabilities which particularly constrain economic growth
 - a. Pros
 - (1) Uses what USSR does best
 - (2) Gets what is needed straightaway
 - (3) Is a safe decision from viewpoint of internal politics - distract people from economic woes in any case

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b. Cons

- (1) Risk of escalation
- (2) May not provide constraining resources

c. Scenarios

- (1) Korea - not really attractive on economic grounds, but could North Korean proxy attack on ROK split US & PRC?
- (2) PRC - not clear that it could help on economic grounds, but would surely weld rank and file support for national leaders
- (3) Western Europe - lots of resources, but very risky
- (4) Iran - see attached fantasy

C. Assessment

1. Likelihood of Scenarios Being Played Out

- a. Opt for Flexibility (1 chance out of 20, 5%)
- b. Embrace Disarmament (1 chance out of 50, 2%)
- c. Muddle Through (1 chance out of 3, 33%)
- d. Stalinize (4 chances out of 10, 40%)
- e. Go to War (1 chance out of 5, 20%)

2. Summary

- a. We will be living in dangerous and highly unpredictable times
- b. Economics will face Soviets with excruciatingly painful choices
- c. We don't know which way they will go, but on average judge it much more likely that they will take the hard line.

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